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Six Questions for Hager Pacific's Rob Neal

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NEWPORT BEACH, CA-There is a growing number of institutional industrial buyers taking on more risk and considering value-added acquisitions as opposed to pursuing a traditional strategy of acquiring core and core-plus properties, says **Rob Neal**, a principal with **Hager Pacific Properties**. GlobeSt.com recently chatted with the locally based real estate investment firm that owns and manages nearly 100 properties across the nation, which are valued in excess of $1 billion.

GlobeSt.com: What is Hager Pacific currently working on and what are some trends you are seeing in the industrial and office sector?

Rob Neal: We just sold a property in La Mirada and are looking to fill a $20-million exchange requirement. One interesting aspect about the La Mirada property is that we received substantial interest from end users looking to buy, although there was very modest interest in leasing this modern, fully renovated 85,000-square-foot property. This speaks to California's high unemployment rate, where companies are still very cautious about expansion and growth, compared to the few companies that are making strategic moves to own their own building as opposed to securing a long-term lease.

Another key trend we are watching closely is the growing number of institutional industrial buyers taking on more risk and considering value-added acquisitions as opposed to pursuing a traditional strategy of acquiring core and core-plus properties.

GlobeSt.com: As we move into Q3, is Hager Pacific seeing acquisition and leasing activity increase across the board? Are you seeing any particular sectors or geographic regions faring better than others? Why?

Neal: Acquisitions continue to ramp up, primarily because of the tremendous amount of money that was raised within the last two years. Many institutional investors initially invested in core and core-plus opportunities, but have since started to take advantage of value-add opportunities. Despite this, there continues to be a lack of high yield opportunities for all investors.

Leasing activity for big box industrial properties more than 500,000 square feet or larger remains steady. Activity for smaller properties is very slow and inconsistent, especially since leasing activity has been cannibalized by user-sales facilitated by business lending through the Small Business Administration.

The coastal cities on the East and West coasts continue to exhibit high investor demand, but their performance and unemployment rates are often no better and perhaps worse than Midwestern cities. In the interior of the country's primary cities such as Chicago, are showing signs of increased investment activity and are propelling a commercial real estate rebound in these non-coastal markets.

GlobeSt.com: How is the influx of institutional capital impacting the industry regionally and nationally?

Neal: Values for class A properties are rapidly rising in core markets. In the Inland Empire, for example, values are within 10% of market highs but rents are still off 25% or more, demonstrating that property yields have dropped substantially. Once interest rates rise, cap rates and overall yields are expected to increase while values decrease. The question remains whether or not rental growth will more than offset these yield increases.

GlobeSt.com: What role is cash playing in acquisitions and how do firms like Hager Pacific benefit from this position?

Neal: The debt markets continue to improve, but lenders are still cautious to provide financing for properties that are not stabilized. There are also a large number of all cash institutional buyers looking to acquire stabilized, core properties. As a result, low acquisition leverage has now become the new normal. Hager Pacific Properties' advantage is our ability to acquire value-add properties on an all-cash basis.

GlobeSt.com: There are a number of value-add opportunities in major markets throughout the nation. What opportunities is Hager Pacific paying attention to?

Neal: We are watching our core markets—California and the Northeast—very closely. These markets continue to provide Hager Pacific Properties with the best value-add acquisition opportunities.

GlobeSt.com: Speculative industrial development has started up again in the Inland Empire. How will these developments positively impact the regional market? Do you see infill development and/or renovations starting to increase in the coming months?

Neal: Speculative industrial development, especially in the Inland Empire, will begin to benefit the construction industry by creating jobs. It is also increasing confidence within the build-to-suit industry as regional demand for big box spaces larger than 500,000 square feet is expected to continue. This large box demand is a direct result of the strength of primarily foreign, but also domestic manufacturing and distribution in the US.

Industrial vacancy rates in the overall Southern California market are among the lowest in the nation, but many markets are built out and cannot support large, new developments. This has and will continue to lead to ongoing renovation of existing facilities.